

Mason-Lake Intermediate School District

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2008

Mason-Lake Intermediate School District

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# Mason-Lake Intermediate School District

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## Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Mason-Lake Intermediate School District is located in Ludington, Michigan. The Intermediate School District provided services to six K-12 school districts located within portions of five different counties during fiscal year 2008. The current year Management's Discussion and Analysis, a requirement of GASB 34, is Mason-Lake Intermediate School District Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

Generally accepted accounting principles according to GASB 34 require the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Using this Annual Report:

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Mason-Lake Intermediate School District as a whole. The *District-wide Financial Statements* provide information about the activities of the whole Intermediate School District, presenting both an aggregate view of Intermediate School District's finances and a longer-term view of those finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Intermediate School District's operations in more detail than the district-wide financial statements by providing information about the Intermediate School District's most significant funds – the General Education Fund, Special Education Fund, and the Career and Technical Education Fund, with all other funds presented in one column as other governmental funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Intermediate School District acts solely as an agent for the benefit of students.

Reporting the Intermediate School District as a Whole – District-wide Financial Statements:

The district-wide financial statements include the statement of net assets and the statement of activities. These statements, which appear first in the Intermediate School District's financial statements, report information on the Intermediate School District as a whole and its activities in a way to provide an easy-to-understand overview of the District's financial position and results of operations for the year. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

# **Mason-Lake Intermediate School District**

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## **Management's Discussion and Analysis**

These two statements report the Mason-Lake Intermediate School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, Mason-Lake Intermediate School District exists to provide services to our local school districts, their staff, and the students they serve. We do not generate profits as commercial entities do. One must consider other non-financial factors, such as the quality of services provided, to assess the overall health of the Mason-Lake Intermediate School District.

The statement of net assets and statement of activities report the governmental activities of the Mason-Lake Intermediate School District, which encompass all of the District's services, including instruction, supporting services, and community services. Property taxes, state aid, and federal grants finance most of these activities.

Reporting the Intermediate School District's Most Significant Funds – Fund Financial Statements:

The Intermediate School District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and bond covenants. However, the District has established other funds to help it control and manage money for particular purposes. The governmental funds of the District use the following accounting approach:

**Governmental funds:** All of the Intermediate School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Intermediate School District's programs. We describe the relationship or differences between governmental activities reported in the fund financial statements and the district-wide financial statements in a reconciliation schedule.

# Mason-Lake Intermediate School District

## Management's Discussion and Analysis

The Intermediate School District as Trustee – Reporting the District's Fiduciary Responsibilities:

Mason-Lake Intermediate School District serves as a trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's other financial statements because these assets cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes and by those to whom the assets belong.

Financial Analysis of the District as a Whole:

Net assets: Note that the statement of net assets provides the perspective of the Intermediate School District as a whole. Table 1 provides a summary of the Intermediate School district's net assets as of June 30, 2007 and 2008.

TABLE 1	Governmental Activities (in millions)		Percentage Change
	2007	2008	2007-2008
<b>Assets</b>			
Current and other assets	\$ 9.16	\$ 9.93	8.4%
Capital assets – Net of accumulated depreciation	<u>3.63</u>	<u>3.58</u>	<u>-1.4%</u>
Total assets	<u>\$ 12.79</u>	<u>\$ 13.51</u>	<u>5.6%</u>
<b>Liabilities</b>			
Current liabilities	\$ 1.04	\$ 1.05	0.9%
Long-term liabilities	<u>1.54</u>	<u>1.48</u>	<u>-3.9%</u>
Total liabilities	<u>\$ 2.58</u>	<u>\$ 2.53</u>	<u>-1.9%</u>
<b>Net Assets</b>			
Invested in property and equipment – Net of related debt	\$ 2.69	\$ 2.72	1.1%
Restricted	7.02	7.72	10.0%
Unrestricted	<u>0.49</u>	<u>0.54</u>	<u>10.2%</u>
Total net assets	<u>\$ 10.20</u>	<u>\$ 10.98</u>	<u>7.6%</u>

During the fiscal year ended June 30, 2008, the Intermediate School District's net assets increased by \$772,537. This improvement in financial position is the product of several factors. Total revenue increased by \$326,254 due primarily to increases in Medicaid revenue and property tax revenue. At the same time, total expenditures increased \$502,631 from the prior year level. Revenue generated in excess of expenditures was retained in the cash, receivable, and other current asset accounts as reflected above in Table 1. Net capital assets declined slightly due to the disposal of older school buses and technology equipment.

# **Mason-Lake Intermediate School District**

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## **Management's Discussion and Analysis**

Changes in net assets: The aforementioned analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Intermediate School District's governmental activities is discussed below. The District's net assets increased from \$10.21 million at June 30, 2007 to \$10.98 million at June 30, 2008. Capital assets, net of related debt compares the original cost, less accumulated depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from future tax revenues. Similar to the prior year, a portion of net assets, \$7.72 million, is legally restricted for special education programs, career and technical education programs, debt payments and donor designated purposes. The remaining amount of net assets, \$0.54 million, was unrestricted. The operating results of all three major funds will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Intermediate School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2008.

The total cost of all programs and services increased slightly to \$11.79 million. In terms of dollars, none of the expense categories increased significantly. Current year support services expense included a special transfer of \$ .5 million to our local school districts to subsidize their cost of operating several programs. That transfer did not occur in the prior fiscal year. That cost was offset in the current year by increases in salaries, wages, and other operating costs. Instruction costs increased 2.1% from the prior year. This small increase was due to savings in health insurance costs and savings in salary levels due to the retirement of senior teachers. Community service expenses decreased slightly due to the expiration of two program grants.

Total revenue from the District's governmental activities increased 2.6 % to \$12.56 million. Total program revenue decreased \$28,398 due to general declines in restricted state revenue and other one-time revenue sources. General revenue increased by 4.6 %, or \$354,652, due to increases in property tax revenue.

Total revenue surpassed total expense thereby increasing net assets \$772,537 from the prior year.

# Mason-Lake Intermediate School District

## Management's Discussion and Analysis

TABLE 2

	Governmental Activities (in millions)		Percentage Change
	<u>2007</u>	<u>2008</u>	<u>2007-2008</u>
Revenue			
Program Revenue			
Charges for services	\$ 0.17	\$ 0.20	17.6%
Grants and categoricals	4.46	4.40	-1.3%
General Revenue			
Property taxes	6.74	7.11	5.5%
Unrestricted state aid	0.50	0.54	8.0%
Other	<u>0.37</u>	<u>0.31</u>	<u>-16.2%</u>
Total revenue	\$ <u>12.24</u>	\$ <u>12.56</u>	<u>2.6%</u>
Function/Program Expenses			
Instruction	\$ 3.26	3.33	2.1%
Support Services	7.67	8.20	6.9%
Community Services	0.20	0.10	-50.0%
Interest on long-term debt	0.05	0.05	0.0%
Unallocated depreciation	<u>0.11</u>	<u>0.11</u>	<u>0.0%</u>
Total expenses	\$ <u>11.29</u>	<u>11.79</u>	<u>4.4%</u>
Increase (Decrease) in Net Assets	\$ <u><u>0.95</u></u>	<u><u>0.77</u></u>	<u><u>-18.9%</u></u>

# Mason-Lake Intermediate School District

## Management's Discussion and Analysis

### Governmental Activities

Table 3 presents the costs of four major district activities. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

- The cost of all governmental activities this year was \$11.79 million.
- A small portion of the cost, \$201,894, was financed by the users of the programs through user charges.
- The federal and state government subsidized program cost with grants and state aid revenue totaling \$4.40 million.
- Total program revenue increased \$28,398, over the prior year.
- Most of the District's net costs of services (\$7.18 million), however, were financed by District taxpayers, and to a lesser extent, state taxpayers.
- Current year property tax revenue comprised 56.6 % of total revenue in the current year compared to 55.1 % in the prior fiscal year.

As indicated above, the *net cost* shows the financial burden that was placed on the Mason-Lake Intermediate School District taxpayers and on State taxpayers. Since property taxes for operations and unrestricted state aid constitute the majority of District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the Intermediate School District and the local districts it serves and balance those needs with available tax revenues and unrestricted state aid revenue.

TABLE 3

Net Cost of Governmental Activities (in millions of dollars)

	Total Cost of Services		Percentage Change 2007-2008	Net Cost of Services		Percentage Change 2007-2008
	2007	2008		2007	2008	
Instruction	\$ 3.26	\$ 3.33	2.1%	\$ -2.14	\$ -2.15	0.5%
Support Services	7.67	8.20	6.9%	-4.32	-4.86	12.5%
Community Services	0.20	0.10	-50.0%	-0.04	-0.01	-75.0%
Other	0.16	0.16	0.0%	-0.15	-0.16	6.7%
Total	\$ 11.29	\$ 11.79	4.4%	\$ -6.65	\$ -7.18	8.0%



# **Mason-Lake Intermediate School District**

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## **Management's Discussion and Analysis**

### The Intermediate School District's Funds

As we noted earlier, the Intermediate School District uses funds to help it control and manage money for specific purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Intermediate School District's overall financial health.

As the Intermediate School District completed this year, the governmental funds reported a combined fund balance of \$8.99 million, which is an increase of \$753,424 from the prior year. All of the Intermediate School District's governmental funds had increases in fund equity.

- Our General Education Fund reflects an increase in fund balance of \$61,153 from the prior year. Revenues decreased \$55,641 while expenditures decreased \$168,836 from the prior year.
- The Special Education Fund reflects a fund balance increase of \$435,968. Revenues increased \$275,532 due to property tax and Medicaid revenue increases. Special Education expenditures increased by \$367,966.
- The Career and Technical Education Fund experienced a fund balance increase of \$135,668. Compared to prior year levels, revenues increased \$110,279 while expenditures increased \$177,744.
- The Debt Service Funds normally have low fund balances since the majority of funds used to pay debt principal and interest comes from the Special Education Fund in the form of operating transfers. These transfers are composed of state aid revenue and general operating revenues.
- The fund balance of the Capital Projects Fund increased \$120,591 at June 30, 2008 due to investment earnings and a \$100,000 operating transfer from the Career and Technical Education Fund.

# **Mason-Lake Intermediate School District**

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## **Management's Discussion and Analysis**

### Governmental Fund Budgetary Highlights

Over the course of the fiscal year, the Intermediate School District revises its budget as changes in revenues and expenditures become known. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Because the State of Michigan's fiscal year differs from the District's fiscal year, the District's original budgets are adopted approximately 120 days before actual state revenues are known. Material changes to original budgets for the General Education, Special Education, and Career and Technical Education fund budgets are as follows:

- **General Education Fund:** Final budgeted revenue increased \$108,947 over the original budget estimate. The original budget is compiled in April of the preceding year. This is well before most revenue funding levels are known. For example, property tax valuations are not known until May, one month after the budget is prepared. State aid revenue typically is not known until four months later - in September. Federal grant availability is typically not known until September. Because of the uncertainty that exists in April, the next year's anticipated revenue is conservatively estimated. Actual revenue exceeded the original budget amount by \$117,749 due to larger than anticipated increases in tax revenue, state aid, federal grants, and other local grants. Final budgeted expenses increased \$68,547 over the original budget.
- **Special Education Fund:** Budgeted revenues increased \$359,086 due to greater than expected property tax and Medicaid revenue. Budgeted expenditures increased \$158,347. The most significant budget change occurred in the operations and maintenance department. A delayed roofing and lighting project totaling approximately \$167,000 was the primary reason for the difference. Actual expenditures were within \$47,734 of the original budget amount.
- **Career and Technical Education Fund:** Budgeted revenues increased \$89,716 due to higher than expected property tax and out-district tuition revenue. Actual instructional expenditures were \$22,135 less than the original adopted budget.
- There was one material negative expenditure variances between the final budget and actual amounts. The Central Service budget of \$205,535 was exceeded by \$34,414. This variance was due to a calculation error in budgeting the allocation of data processing expense between the three primary funds.

# Mason-Lake Intermediate School District

## Management's Discussion and Analysis

### Capital Asset and Debt Administration

#### Capital Assets

At June 30, 2008, the Intermediate School District had \$6.3 million invested in capital assets. This amount represents a net increase, including additions and deletions, of \$62,948 or 1.0 %, from last year. Total depreciation expense for the year was \$253,847 compared to \$237,991 in the prior year.

This year's net asset additions of \$218,596 included roof replacement, lighting improvements, and classroom equipment and improvements. Current year asset additions by fund are as follows:

General Education	\$	0
Special Education		22,803
Career and Technical Education		34,193
Unallocated		161,600
Total	\$	<u>218,596</u>

	<u>Governmental Activities</u>		<u>Total Percentage Change</u>
	<u>2007</u>	<u>2008</u>	<u>2007-2008</u>
Land	\$ 33,000	\$ 33,000	0.0%
Land improvements	412,479	412,479	0.0%
Buildings	3,437,493	3,621,896	5.4%
Buses and other vehicles	536,077	455,834	-15.0%
Furniture and equipment	<u>1,864,483</u>	<u>1,846,074</u>	<u>-1.0%</u>
Total capital assets	6,283,532	6,369,283	1.4%
Less accumulated depreciation	<u>2,654,593</u>	<u>2,794,051</u>	<u>5.3%</u>
Net capital assets	<u>\$ 3,628,939</u>	<u>\$ 3,575,232</u>	<u>-1.5%</u>

# Mason-Lake Intermediate School District

## Management's Discussion and Analysis

### Debt

At June 30, 2008, Mason-Lake Intermediate School District had \$.85 million in bonds outstanding versus \$.94 million in the previous year – a change of 9.6%. The remaining bonds are related to the 2000 building & site project.

	<u>2007</u>	<u>2008</u>
General Obligation Bonds	\$ <u>940,000</u>	\$ <u>850,000</u>

The State limits the amount of general obligation debt that intermediate school districts can issue without a vote of the electors. The debt limit is limited to 1/9 of 1% of the state equalized valuation of the taxable property within the District. If the District issues “qualified debt”, i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The District’s outstanding unqualified general obligation debt of \$.85 million is significantly below the statutorily imposed limit.

Other long-term obligations consist of employee compensated absences.

### Economic Factors and Next year's Budgets

Because education funding in Michigan is largely based on business taxes, such as sales tax, our slumping state economy has had a direct and continuing negative impact on education funding. At the same time, operating costs for Michigan school districts are rising faster than revenue increases. Our state legislature is being challenged to secure education funding in an environment when financial resources are declining. The local districts we serve also continue to be challenged to maintain instructional services during this time of economic uncertainty. To a large extent, their needs determine the nature and focus of our service efforts.

To assist our districts in meeting these challenges, Mason-Lake ISD and the local districts we serve are actively seeking cost-saving collaboration opportunities between districts. During the recent fiscal year, we formed a business service cooperative for the benefit of our local districts. The first project was the establishment of student management software cooperative that includes the participation of all eleven school districts located within Mason-Lake and Oceana Intermediate School Districts. All eleven districts will be using that software beginning in September 2008. We are also actively exploring collaborative opportunities in other support service areas with the same goal of achieving savings that can then be redirected into instructional programs. We have completed the third year of sharing a superintendent with neighboring Oceana ISD. Our dual superintendent will be retiring during FY 2009 and we expect the next superintendent to continue to serve both intermediate school districts in a dual capacity. We also share technology, human resource, and professional development staff with Oceana ISD in a continuing effort to reduce costs of both districts and the districts they serve while enhancing instructional services for children.

### Contacting the School District's Financial Management

This financial report is designed to provide a general overview of the Mason-Lake Intermediate School District's finances for all those with an interest in the District's finances. If you have questions about this report or need additional information, contact the Central Business Office, 2130 W. US-10, Ludington, Michigan 49431.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

September 30, 2008

Board of Education  
Mason-Lake Intermediate School District  
Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason-Lake Intermediate School District (the School District), as of and for the year ended June 30, 2008, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mason-Lake Intermediate School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mason-Lake Intermediate School District, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated September 30, 2008 on our consideration of Mason-Lake Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages i - x and pages 24 - 26, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BRICKLEY DELONG

Board of Education  
September 30, 2008  
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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Mason-Lake Intermediate School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Brickley DeLong, PLC*

Mason-Lake Intermediate School District  
**STATEMENT OF NET ASSETS**  
June 30, 2008

	Governmental activities
ASSETS	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 4,794,978
Investments	3,279,285
Receivables	43,462
Due from other governmental agencies	967,353
Inventories	143,177
Prepaid items	<u>704,638</u>
Total current assets	9,932,893
<b>NONCURRENT ASSETS</b>	
Capital assets, net	
Nondepreciable	55,803
Depreciable	<u>3,519,429</u>
Total noncurrent assets	<u>3,575,232</u>
Total assets	13,508,125
LIABILITIES AND NET ASSETS	
<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued liabilities	632,770
Due to other governmental units	159,490
Deferred revenue	156,907
Bonds and other obligations, due within one year	<u>100,000</u>
Total current liabilities	1,049,167
<b>NONCURRENT LIABILITIES</b>	
Bonds and other obligations, less amounts due within one year	<u>1,475,203</u>
Total liabilities	2,524,370
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	2,725,232
Restricted for:	
Special education	4,675,113
Career and technical education	2,430,202
Permanent fund	8,044
Capital projects	603,912
Debt service	1,466
Unrestricted	<u>539,786</u>
Total net assets	<u>\$ 10,983,755</u>

The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2008

		Program Revenue		Net (Expense)
		Charges	Operating grants	Revenue and
	Expenses	for services	and contributions	Changes in
<i>Functions/Programs</i>				Net Assets
Governmental activities				Governmental
Instruction	\$ 3,331,911	\$ 136,000	\$ 1,042,993	\$ (2,152,918)
Support services	8,200,789	65,894	3,272,637	(4,862,258)
Community services	98,941	-	87,202	(11,739)
Interest on long-term debt	50,373	-	-	(50,373)
Unallocated depreciation	106,179	-	-	(106,179)
Total governmental activities	<u>\$ 11,788,193</u>	<u>\$ 201,894</u>	<u>\$ 4,402,832</u>	(7,183,467)
General revenues				
Property taxes levied for				
General purposes				549,292
Special education				4,718,897
Career and technical education				1,840,745
Grants and contributions not restricted to specific programs				540,321
Unrestricted investment earnings				289,615
Miscellaneous				17,134
Total general revenues and special items				<u>7,956,004</u>
Change in net assets				772,537
Net assets at July 1, 2007				<u>10,211,218</u>
Net assets at June 30, 2008				<u>\$ 10,983,755</u>

The accompanying notes are an integral part of this statement.



Mason-Lake Intermediate School District  
**BALANCE SHEET**  
Governmental Funds  
June 30, 2008

	General Fund	Special Education	Career and Technical Education	Other governmental funds	Total governmental funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,119,981	\$ 2,549,903	\$ 1,115,584	\$ 9,510	\$ 4,794,978
Investments	-	1,966,447	712,964	599,874	3,279,285
Receivables	5,688	27,616	6,120	4,038	43,462
Due from other governmental units	282,601	614,553	70,199	-	967,353
Due from other funds	59,383	51,020	-	-	110,403
Inventories	-	-	143,177	-	143,177
Prepaid items	110	93,168	611,360	-	704,638
Total assets	<u>\$ 1,467,763</u>	<u>\$ 5,302,707</u>	<u>\$ 2,659,404</u>	<u>\$ 613,422</u>	<u>\$ 10,043,296</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 29,313	\$ 505,571	\$ 90,550	\$ -	\$ 625,434
Due to other governmental units	1,582	34,861	123,047	-	159,490
Due to other funds	35,781	59,017	15,605	-	110,403
Deferred revenue	128,762	28,145	-	-	156,907
Total liabilities	<u>195,438</u>	<u>627,594</u>	<u>229,202</u>	<u>-</u>	<u>1,052,234</u>
<b>Fund balances</b>					
<b>Reserved for:</b>					
Inventories and prepaid items	110	93,168	754,537	-	847,815
Compensated absences	165,760	444,133	115,310	-	725,203
Capital projects	-	-	-	603,912	603,912
Permanent fund	-	-	-	8,044	8,044
Debt service	-	-	-	1,466	1,466
Special education	-	4,137,812	-	-	4,137,812
Career and technical education	-	-	1,560,355	-	1,560,355
<b>Unreserved</b>					
Undesignated	1,106,455	-	-	-	1,106,455
Total fund balances	<u>1,272,325</u>	<u>4,675,113</u>	<u>2,430,202</u>	<u>613,422</u>	<u>8,991,062</u>
Total liabilities and fund balances	<u>\$ 1,467,763</u>	<u>\$ 5,302,707</u>	<u>\$ 2,659,404</u>	<u>\$ 613,422</u>	<u>\$ 10,043,296</u>

The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**  
June 30, 2008

Total fund balance—governmental funds		\$ 8,991,062
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.

Cost of capital assets	\$ 6,369,283	
Accumulated depreciation	<u>(2,794,051)</u>	3,575,232

Accrued interest in the governmental activities is not reported in the governmental funds.	(7,336)
--	---------

Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.

Bonds and notes payable	(850,000)	
Compensated absences	<u>(725,203)</u>	<u>(1,575,203)</u>

Net assets of governmental activities in the Statement of Net Assets	\$ <u>10,983,755</u>
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The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District  
**STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES**

Governmental Funds

For the year ended June 30, 2008

	General Fund	Special Education	Career and Technical Education	Other governmental funds	Total governmental funds
<b>REVENUES</b>					
Local sources					
Property taxes	\$ 549,292	\$ 4,718,897	\$ 1,840,745	\$ -	\$ 7,108,934
Medicaid reimbursement	-	336,373	-	-	336,373
Investment earnings	43,326	160,801	64,853	20,635	289,615
Other	17,359	60,267	9,710	-	87,336
Total local sources	609,977	5,276,338	1,915,308	20,635	7,822,258
State sources	630,089	1,916,885	131,268	47,282	2,725,524
Federal sources	59,361	1,577,450	117,208	-	1,754,019
Total revenues	1,299,427	8,770,673	2,163,784	67,917	12,301,801
<b>EXPENDITURES</b>					
Instruction	-	1,986,818	1,294,975	-	3,281,793
Support services	1,267,240	5,399,268	763,535	-	7,430,043
Community services	8,914	90,027	-	-	98,941
Debt service					
Principal	900	-	-	90,000	90,900
Interest and other charges	-	-	-	50,249	50,249
Total expenditures	1,277,054	7,476,113	2,058,510	140,249	10,951,926
Excess (deficiency) of revenues over (under) expenditures	22,373	1,294,560	105,274	(72,332)	1,349,875
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other governmental units and other transactions	75,822	47,883	135,224	-	258,929
Transfers to other governmental units and other transactions	(37,042)	(813,508)	(4,830)	-	(855,380)
Transfers in	-	-	-	193,435	193,435
Transfers out	-	(92,967)	(100,000)	(468)	(193,435)
Total other financing sources (uses)	38,780	(858,592)	30,394	192,967	(596,451)
Net change in fund balances	61,153	435,968	135,668	120,635	753,424
Fund balances at July 1, 2007	1,211,172	4,239,145	2,294,534	492,787	8,237,638
Fund balances at June 30, 2008	\$ 1,272,325	\$ 4,675,113	\$ 2,430,202	\$ 613,422	\$ 8,991,062

The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2008

Net change in fund balances—total governmental funds	\$	753,424
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these cost are depreciated over their estimated useful lives.

Depreciation expense	\$ (253,847)	
Capital outlay	<u>218,596</u>	(35,251)

Governmental funds report the proceeds from sale of capital assets as revenue, but the Statement of Activities reports only the gain on the sale of capital assets.	(18,456)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	105,202
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	776
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Voluntary severance plan obligations and compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>(33,158)</u>
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Change in net assets of governmental activities	\$ <u><u>772,537</u></u>
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The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**

Fiduciary funds  
June 30, 2008

	Agency funds
ASSETS	
Cash	\$ <u>2,037</u>
LIABILITIES	
Deposits held for others	\$ <u>2,307</u>

The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Mason-Lake Intermediate School District (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Reporting Entity**

The School District is located in Ludington, Michigan. The School District began operations in 1962 and provides services to the following school districts: Free Soil Community Schools, Mason County Eastern, Mason County Central, Baldwin Community Schools, Pentwater Public Schools, Lakeshore Public Academy, and Ludington Area School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

***District-wide and Fund Financial Statements***

**District-wide Financial Statements** – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted state aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***District-wide and Fund Financial Statements—Continued***

**Fund financial statements** – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *Special Education Fund* is used to account for funds legally restricted to special education programs.
- The *Career and Technical Education Fund* is used to account for funds legally restricted to vocational education programs.

The other nonmajor governmental funds are reported within the following types:

- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the acquisition of fixed assets or construction of major capital projects.
- The *permanent funds* are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs.

**Fiduciary funds** – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

***Measurement Focus, Basis of Accounting and Basis of Presentation***

**Accrual Method**

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Measurement Focus, Basis of Accounting and Basis of Presentation—Continued***

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the revised School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

***Other Accounting Policies***

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the Special Education Fund and the Career and Technical Education Fund is generally allocated to each fund using a weighted average of balances for the principal.



Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies—Continued***

**Deposit and Investments—Continued**

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

**Property Taxes**

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the School District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	.276
Special Education Fund—Non-homestead	2.3751
Career and Technical Education Fund—Non-homestead	.9209

Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies—Continued***

**Inventories**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are expendable supplies held for consumption and are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$4,000, except for technology of \$1,000 or more, and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	20 to 50 years
Buses and other vehicles	8 years
Furniture and other equipment	4 to 20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

**Deferred Revenue**

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

**Compensated Absences**

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies—Continued***

**Voluntary Severance Plan**

For district-wide financial statements, the liability for voluntary severance is reported when legally enforceable. For fund financial statements, the liability for voluntary severance is reported only when there is a specified due date.

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Net Assets In District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity In Fund Financial Statements**

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual budgets lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Local School District boards approve or disapprove the annual General Fund budget by board resolution.
3. Public hearings are conducted to obtain taxpayer comments.
4. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
5. The administration of the School District is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year.
7. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School District does not consider these amendments to be significant.

**Excess of Expenditures Over Appropriations**

For the year ended June 30, 2008, expenditures exceeded appropriations in the Special Education Fund central services by \$34,414.

Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2008, the School District had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (Days)</b>	<b>Standard &amp; Poor's Rating</b>	<b>Percent</b>
MILAF external investment pool - MIMAX	\$ 713,689	9	AAAm	21.8%
MILAF external investment pool – TERM E	1,593,204	12	AAAm	48.6
DREYFUS Cash Management	780,292	1	AAA	5.8
Federal Agency Notes	<u>192,100</u>	<u>66</u>	AAA	<u>23.8</u>
Total fair value	\$ <u>3,279,285</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>88</u>		

The School District voluntarily invests certain excess funds in external pooled investment funds which includes money market funds. One of the pooled investment funds utilized by the School District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the School District's investments is the same as the value of the pool shares.

**Interest rate risk.** In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations.

**Concentration of credit risk.** The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$5,184,819 of the School District's bank balance of \$5,484,819 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name. Included in the above deposit figures are bank money market deposits of \$938,180.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

**Foreign currency risk.** The School District is not authorized to invest in investments which have this type of risk.

Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<b>Capital assets, not being depreciated:</b>				
Land	\$ 33,000	\$ -	\$ -	\$ 33,000
Construction in progress	<u>-</u>	<u>22,803</u>	<u>-</u>	<u>22,803</u>
Total capital assets, not being depreciated	33,000	22,803	-	55,803
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	3,849,972	161,600	-	4,011,572
Furniture and equipment	1,864,483	24,243	42,652	1,846,074
Vehicles	<u>536,077</u>	<u>9,950</u>	<u>90,193</u>	<u>455,834</u>
Total capital assets, being depreciated	6,250,532	195,793	132,845	6,313,480
<b>Less accumulated depreciation:</b>				
Buildings and improvements	1,290,164	82,529	-	1,372,693
Furniture and equipment	1,236,988	118,643	41,702	1,313,929
Vehicles	<u>127,441</u>	<u>52,675</u>	<u>72,687</u>	<u>107,429</u>
Total accumulated depreciation	<u>2,654,593</u>	<u>253,847</u>	<u>114,389</u>	<u>2,794,051</u>
Total capital assets, being depreciated, net	<u>3,595,939</u>	<u>(58,054)</u>	<u>18,456</u>	<u>3,519,429</u>
Capital assets, net	<u>\$ 3,628,939</u>	<u>\$ (35,251)</u>	<u>\$ 18,456</u>	<u>\$ 3,575,232</u>

**Depreciation**

Depreciation expense has been charged to functions as follows:

Instruction	\$ 64,163
Support Services	83,505
Unallocated depreciation	<u>106,179</u>
	<u>\$ 253,847</u>

Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**Interfund Obligations**

The composition of interfund balances as of June 30, 2008 is as follows:

**Due to/from other funds:**

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Special Education Fund	\$ 59,017
General Fund	Career and Technical Education Fund	366
Special Education Fund	General Fund	35,781
Special Education Fund	Career and Technical Education Fund	<u>15,239</u>
		<u>\$ 110,403</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers**

The Special Education Fund transferred \$92,967 to the 2000 Building and Site Bonds Debt Service Fund to finance payments of bond principal and interest. The Career and Technical Education Fund transferred \$100,000 to the Capital Projects Fund for future capital projects. The 1994 Building and Site Bonds Debt Service Fund transferred \$468 to the 2000 Building and Site Bonds Debt Service Fund to finance payments of bond principal and interest.

**NOTE F—LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include capital leases, notes payable, compensated absences, and termination benefits.

**Summary of Long-term Obligations**

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due within</u> <u>one year</u>
<b>Governmental activities:</b>					
Bonds	\$ 940,000	\$ -	\$ 90,000	\$ 850,000	\$ 100,000
Other obligations	<u>707,247</u>	<u>33,158</u>	<u>15,202</u>	<u>725,203</u>	<u>-</u>
	<u>\$ 1,647,247</u>	<u>\$ 33,158</u>	<u>\$ 105,202</u>	<u>\$ 1,575,203</u>	<u>\$ 100,000</u>

Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE F—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

General obligation bonds consist of the following:

2000 Building and Site Bonds require bi-annual interest payments at rates ranging from 5.25% to 5.375% and annual principal payments ranging from \$100,000 to \$145,000 through May 2015	\$ 850,000
---	------------

Other obligations

Vested sick and vacation pay	<u>725,203</u>
	<u><u>\$ 1,575,203</u></u>

The annual requirements of principal and interest to amortize bonded debt outstanding as of June 30, 2008 follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 100,000	\$ 45,248	\$ 145,248
2010	110,000	39,998	149,998
2011	115,000	34,224	149,224
2012	120,000	28,128	148,128
2013	125,000	21,768	146,768
2014-2015	<u>280,000</u>	<u>22,844</u>	<u>302,844</u>
	<u><u>\$ 850,000</u></u>	<u><u>\$ 192,210</u></u>	<u><u>\$ 1,042,210</u></u>



Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE G—EMPLOYEE BENEFITS**

***Employee Retirement System – Defined Benefit Plan***

**Plan description** – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing Michigan 48909  
1-800-381-5111

**Funding policy** – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 17.74 percent of payroll for July, August and September. For the period from October 1, 2007 to June 30, 2008 rates were 16.72 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$883,100, \$872,400 and \$797,800, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits** – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Mason-Lake Intermediate School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE H—COMMITMENTS AND CONTINGENCIES**

***Commitments***

**Operating Leases** – The School District is involved in several lease agreements expiring at various dates through May 2011 requiring aggregate minimum monthly payments of approximately \$7,600. Expense for the year ended June 30, 2008 was approximately \$90,800.

The following is a schedule of future minimum rental payments required under operating leases for School District office equipment and transportation equipment.

Year ending June 30,	Amount
2009	\$ 86,376
2010	83,087
2011	<u>5,014</u>
	<u>\$ 174,477</u>

The School District entered into an agreement with West Shore Community College on July 1, 2005 to lease instructional space in a building constructed during fiscal year 2006. The remaining balance of the fifteen year lease totaling \$816,580 was paid during fiscal year 2007 and will be amortized over the lease term.

***Contingencies***

**Grant Programs** – The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**NOTE I—OTHER INFORMATION**

**Economic Dependence** – State school aid represents approximately 48.5, 21.9 and 6.1 percent of General, Special Education and Career and Technical Education Fund revenues, respectively.

**Risk Management** – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Mason-Lake Intermediate School District  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**

General Fund  
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 592,500	\$ 611,100	\$ 609,977	\$ (1,123)
State sources	573,800	621,805	630,089	8,284
Federal sources	15,000	58,542	59,361	819
Incoming transfers and other transactions	<u>76,200</u>	<u>75,000</u>	<u>75,822</u>	<u>822</u>
Total revenues	1,257,500	1,366,447	1,375,249	8,802
EXPENDITURES				
Support services				
Pupil	30,000	50,493	49,999	494
Instructional staff	658,739	687,914	654,968	32,946
General administration	164,619	164,900	148,099	16,801
Business	201,459	207,224	203,763	3,461
Operations and maintenance	29,900	30,800	29,330	1,470
Central	158,652	187,300	181,081	6,219
Community services	15,000	9,325	8,914	411
Outgoing transfers and other transactions	<u>50,340</u>	<u>39,300</u>	<u>37,942</u>	<u>1,358</u>
Total expenditures	<u>1,308,709</u>	<u>1,377,256</u>	<u>1,314,096</u>	<u>63,160</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(51,209)</u>	\$ <u>(10,809)</u>	61,153	\$ <u>71,962</u>
Fund balance at July 1, 2007			<u>1,211,172</u>	
Fund balance at June 30, 2008			\$ <u>1,272,325</u>	

Mason-Lake Intermediate School District  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
Special Education Fund  
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Local sources	\$ 5,070,200	\$ 5,340,700	\$ 5,276,338	\$ (64,362)
State sources	1,901,733	1,912,333	1,916,885	4,552
Federal sources	1,559,324	1,620,310	1,577,450	(42,860)
Incoming transfers and other transactions	18,000	35,000	47,883	12,883
Total revenues	8,549,257	8,908,343	8,818,556	(89,787)
<b>EXPENDITURES</b>				
Instruction				
Added needs	1,966,343	2,049,696	1,986,818	62,878
Support services				
Pupil	2,742,689	2,707,921	2,673,464	34,457
Instructional staff	617,915	670,039	662,437	7,602
General administration	63,238	58,100	54,579	3,521
Business	290,572	312,246	308,369	3,877
Operations and maintenance	496,434	615,199	550,138	65,061
Pupil transportation services	913,940	918,892	887,751	31,141
Central	262,717	205,535	239,949	(34,414)
Other	29,410	27,141	22,581	4,560
Community services	102,590	96,700	90,027	6,673
Outgoing transfers and other transactions	944,474	927,200	906,475	20,725
Total expenditures	8,430,322	8,588,669	8,382,588	206,081
Excess of revenues over expenditures	\$ <u>118,935</u>	\$ <u>319,674</u>	435,968	\$ <u>116,294</u>
Fund balance at July 1, 2007			<u>4,239,145</u>	
Fund balance at June 30, 2008			\$ <u><u>4,675,113</u></u>	

Mason-Lake Intermediate School District  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
Career and Technical Education Fund  
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Local sources	\$ 1,838,000	\$ 1,913,000	\$ 1,915,308	\$ 2,308
State sources	140,968	131,832	131,268	(564)
Federal sources	129,356	117,208	117,208	-
Incoming transfers and other transactions	100,000	136,000	135,224	(776)
Total revenues	2,208,324	2,298,040	2,299,008	968
<b>EXPENDITURES</b>				
Instruction				
Added needs	1,281,690	1,298,898	1,294,975	3,923
Support services				
Pupil	267,935	231,631	220,736	10,895
Instructional staff	228,554	243,244	237,877	5,367
General administration	73,959	53,800	50,486	3,314
Business	93,837	112,240	110,752	1,488
Operations and maintenance	107,500	108,500	107,150	1,350
Central services	9,000	40,000	23,712	16,288
Other	19,000	15,000	12,822	2,178
Outgoing transfers and other transactions	104,000	104,900	104,830	70
Total expenditures	2,185,475	2,208,213	2,163,340	44,873
Excess of revenues over expenditures	\$ 22,849	\$ 89,827	135,668	\$ 45,841
Fund balance at July 1, 2007			2,294,534	
Fund balance at June 30, 2008			\$ 2,430,202	

## **OTHER SUPPLEMENTARY INFORMATION**

Mason-Lake Intermediate School District  
**COMBINING BALANCE SHEET**  
 Other Governmental Funds  
 June 30, 2008

			Debt Service		
	Total other governmental funds	Capital Projects	Building and Site Bonds 1994 Issue	Building and Site Bonds 2000 Issue	Permanent Fund
<b>ASSETS</b>					
Cash and cash equivalents	\$ 9,510	\$ -	\$ -	\$ 1,466	\$ 8,044
Investments	599,874	599,874	-	-	-
Receivables	<u>4,038</u>	<u>4,038</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 613,422</u>	<u>\$ 603,912</u>	<u>\$ -</u>	<u>\$ 1,466</u>	<u>\$ 8,044</u>
<b>FUND BALANCES</b>					
Reserved for:					
Capital projects	\$ 603,912	\$ 603,912	\$ -	\$ -	\$ -
Permanent fund	8,044	-	-	-	8,044
Debt service	<u>1,466</u>	<u>-</u>	<u>-</u>	<u>1,466</u>	<u>-</u>
Total fund balances	<u>\$ 613,422</u>	<u>\$ 603,912</u>	<u>\$ -</u>	<u>\$ 1,466</u>	<u>\$ 8,044</u>



Mason-Lake Intermediate School District  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

Other Governmental Funds  
For the year ended June 30, 2008

			Debt Service		
	Total other governmental funds	Capital Projects	Building and Site Bonds 1994 Issue	Building and Site Bonds 2000 Issue	Permanent Fund
REVENUES					
Local sources					
Investment earnings	\$ 20,635	\$ 20,591	\$ -	\$ 44	\$ -
State sources	47,282	-	-	47,282	-
Total revenues	<u>67,917</u>	<u>20,591</u>	<u>-</u>	<u>47,326</u>	<u>-</u>
EXPENDITURES					
Debt service	140,249	-	-	140,249	-
Total expenditures	<u>140,249</u>	<u>-</u>	<u>-</u>	<u>140,249</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	(72,332)	20,591	-	(92,923)	-
OTHER FINANCING SOURCES (USES)					
Transfers in	193,435	100,000	-	93,435	-
Transfers out	(468)	-	(468)	-	-
Total other financing sources (uses)	<u>192,967</u>	<u>100,000</u>	<u>(468)</u>	<u>93,435</u>	<u>-</u>
Net change in fund balances	120,635	120,591	(468)	512	-
Fund balances at July 1, 2007	<u>492,787</u>	<u>483,321</u>	<u>468</u>	<u>954</u>	<u>8,044</u>
Fund balances at June 30, 2008	<u>\$ 613,422</u>	<u>\$ 603,912</u>	<u>\$ -</u>	<u>\$ 1,466</u>	<u>\$ 8,044</u>

Mason-Lake Intermediate School District

**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and  
Independent Auditors' Reports

June 30, 2008

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# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 30, 2008

Board of Education  
Mason-Lake Intermediate School District  
Ludington, Michigan

We have audited the financial statements of Mason-Lake Intermediate School District as of and for the year ended June 30, 2008 and have issued our report thereon dated September 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Mason-Lake Intermediate School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mason-Lake Intermediate School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mason-Lake Intermediate School District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Education  
September 30, 2008  
Page 2

***Compliance***

As part of obtaining reasonable assurance about whether Mason-Lake Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLC*

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 30, 2008

Board of Education  
Mason-Lake Intermediate School District  
Ludington, Michigan

### ***Compliance***

We have audited the compliance of Mason-Lake Intermediate School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its cluster of major federal programs for the year ended June 30, 2008.

Mason-Lake Intermediate School District's cluster of major federal programs is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its cluster of major federal programs is the responsibility of Mason-Lake Intermediate School District's management. Our responsibility is to express an opinion on Mason-Lake Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mason-Lake Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mason-Lake Intermediate School District's compliance with those requirements.

In our opinion, Mason-Lake Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to its cluster of major federal programs for the year ended June 30, 2008.

Board of Education  
September 30, 2008  
Page 2

***Internal Control Over Compliance***

The management of Mason-Lake Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Mason-Lake Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Mason-Lake Intermediate School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of Mason-Lake Intermediate School District as of and for the year ended June 30, 2008 and have issued our report thereon dated September 30, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Mason-Lake Intermediate School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
					Prior years	Current year	Total	
<b><i>U.S. Department of Education</i></b>								
Direct program								
REAP Grant	84.358A							
S358A073239		\$ 19,833	\$ -	\$ 9,210	\$ -	\$ 19,833	\$ 19,833	\$ 10,623
 Programs passed through Michigan Department of Education								
I.D.E.A.	84.027A							
070450/0607		1,282,101	212,760	252,210	1,242,651	39,450	1,282,101	-
070480 EOSD		45,000	1,590	1,590	45,000	-	45,000	-
070490 TS		60,000	8,981	8,981	60,000	-	60,000	-
070440/0607 SPSR		4,000	83	83	1,887	-	1,887	-
080490 TS		50,000	-	47,262	-	50,000	50,000	2,738
080450/0708		1,277,113	-	1,017,641	-	1,256,123	1,256,123	238,482
080480 EOSD		45,000	-	43,047	-	45,000	45,000	1,953
080440/0708 SPSR		4,000	-	80	-	130	130	50
081340/190 EO		80,069	-	67,894	-	78,110	78,110	10,216
		<u>2,847,283</u>	<u>223,414</u>	<u>1,438,788</u>	<u>1,349,538</u>	<u>1,468,813</u>	<u>2,818,351</u>	<u>253,439</u>
 I.D.E.A.	84.173A							
070460/0607		33,370	3,746	3,746	33,370	-	33,370	-
080460/0708		<u>33,138</u>	<u>-</u>	<u>28,382</u>	<u>-</u>	<u>29,686</u>	<u>29,686</u>	<u>1,304</u>
		<u>66,508</u>	<u>3,746</u>	<u>32,128</u>	<u>33,370</u>	<u>29,686</u>	<u>63,056</u>	<u>1,304</u>
 Total I.D.E.A. cluster		2,913,791	227,160	1,470,916	1,382,908	1,498,499	2,881,407	254,743
 Infant and Toddler Early Childhood Intervention Program	84.181A							
071340/190		80,151	17,150	17,150	80,151	-	80,151	-



Mason-Lake Intermediate School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
					Prior year	Current year	Total	
<b><i>U.S. Department of Education—continued</i></b>								
Programs passed through Michigan Department of Education—continued								
Title V	84.298							
080250/0708		\$ 1,296	\$ -	\$ -	\$ -	\$ 898	\$ 898	\$ 898
Title II	84.367							
070520/0607		233	39	39	39	-	39	-
Total passed through Michigan Department of Education		2,995,471	244,349	1,488,105	1,463,098	1,499,397	2,962,495	255,641
Programs passed through Wexford-Missaukee Intermediate School District								
Reading First								
082910/0708	84.357	15,276	-	11,840	-	15,199	15,199	3,359
Programs passed through Muskegon Area ISD								
CTE Perkins	84.048							
083520/7012-9		6,105	-	6,105	-	6,105	6,105	-
Programs passed through Mecosta-Osceola ISD								
CTE Perkins								
083520/7012-7	84.048	111,103	-	65,386	-	111,103	111,103	45,717
Programs passed through Saginaw Valley State University								
Title II Part B Mathematics and Science Partnership								
08-0000-019	84.366B	175,000	-	16,265	-	23,431	23,431	7,166
Total U.S. Department of Education		3,322,788	244,349	1,596,911	1,463,098	1,675,068	3,138,166	322,506

Mason-Lake Intermediate School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
					Prior year	Current year	Total	
<b><i>U.S. Department of Agriculture</i></b>								
Programs passed through Michigan								
Department of Education								
National School Lunch	10.555							
071950 Section 4		\$ 198	\$ 95	\$ 198	\$ 95	\$ 103	\$ 198	\$ -
071960 Section 11		1,175	647	1,175	647	528	1,175	-
081950 Section 4		570	-	541	-	570	570	29
081960 Section 11		3,811	-	3,125	-	3,811	3,811	686
		5,754	742	5,039	742	5,012	5,754	715
Entitlement Commodities	10.550	705	-	705	-	705	705	-
Total U.S. Department of Agriculture		6,459	742	5,744	742	5,717	6,459	715
<b><i>U.S. Department of Health and Human Services</i></b>								
Programs passed through West Michigan Community								
Mental Health								
Medical Assistance Program Title XIX	93.778							
Medicaid Outreach Program - 2007		65,643	-	65,643	-	65,643	65,643	-
Medicaid School Based Services Program		7,592	-	7,591	-	7,591	7,591	-
Total passed through West Michigan Community Mental Health and U.S. Department of Health and Human Services		73,235	-	73,234	-	73,234	73,234	-
TOTAL FEDERAL ASSISTANCE		\$ 3,402,482	\$ 245,091	\$ 1,675,889	\$ 1,463,840	\$ 1,754,019	\$ 3,217,859	\$ 323,221

The accompanying notes are an integral part of this schedule.

Mason-Lake Intermediate School District  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2008

1. Please see the financial statement footnotes for the significant accounting policies used in the preparation of this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) and CMS Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2008  
financial statements

General Fund	\$	59,361	
Special Education Fund		1,577,450	
Career and Technical Education Fund		<u>117,208</u>	<u>1,754,019</u>

Expenditures per single audit report

Schedule of Expenditures of Federal Awards			\$ <u><u>1,754,019</u></u>
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Mason-Lake Intermediate School District  
**SCHEDULE OF FINDINGS AND RESPONSES**  
Year ended June 30, 2008

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Mason-Lake Intermediate School District.
2. *No* significant deficiencies in internal control were disclosed by the audit of the financial statements.
3. *No* instances of noncompliance material to the financial statements of Mason-Lake Intermediate School District were disclosed during the audit.
4. *No* significant deficiencies in internal control were disclosed by the audit of the cluster of major federal award programs.
5. The auditors' report on compliance for the cluster of major federal award programs for Mason-Lake Intermediate School District expresses an unqualified opinion.
6. There were *no* audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a cluster of major programs was:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education</i> Special Education Cluster	84.027 and 84.173

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Mason-Lake Intermediate School District was determined to be a low-risk auditee.

**B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

NONE

**C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133**

NONE

## **CLIENT DOCUMENTS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

September 30, 2008

Michigan Department of Education  
Lansing, Michigan

Mason-Lake Intermediate School District respectfully advises you that there were ***no*** audit findings reported in our single audit report, dated October 10, 2007, for the year ended June 30, 2007.

Sincerely,

A handwritten signature in cursive script that reads "Jeanne Oakes". The signature is written in black ink and is positioned below the word "Sincerely,".

Jeanne Oakes  
Superintendent

**CORRECTIVE ACTION PLAN**

September 30, 2008

Michigan Department of Education  
Lansing, Michigan

Mason-Lake Intermediate School District respectfully submits the following Corrective Action Plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:

Brickley DeLong, PLC  
P.O. Box 999  
Ludington, Michigan 49443

Audit period: June 30, 2008

The findings from the Schedule of Findings and Responses for the year ended June 30, 2008 provided **no** findings in either Section B or Section C. Accordingly, there are **no** matters requiring corrective action as shown below.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT**

There were **no** compliance findings and **no** significant deficiencies in relation to the financial statement audit.

**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS**

There were **no** compliance findings and **no** significant deficiencies in relation to the major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Jeanne Oakes at (231) 757-3716.

Sincerely,



Jeanne Oakes  
Superintendent